

**Testimony  
of  
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Chairman of the Board,  
Southern States Cooperative, Inc.,  
before the Committee on Agriculture  
of the U.S. House of Representatives  
October 16, 2003**

Chairman Goodlatte, Congressman Stenholm, other members of the committee and guests, my sincere thanks for the opportunity to testify here today on a subject that is of great importance to me and my fellow producer-members of Southern States Cooperative, Inc., as well as members of other farmer cooperatives throughout the nation.

My name is John Henry Smith and I am a cattleman and tobacco producer in Russell County in southwest Virginia near the community of Rosedale. I have been a member of Southern States Cooperative since 1958 and use many of its products and services in my farming operation. Southern States is a farmer-owned, 80-year-old farm supply and service cooperative based in Richmond, Va. Our cooperative serves more than 300,000 farmer members and other customers in Virginia and the 11 Eastern and Southeastern states - from Maryland to Florida. It also includes some 237 retail store locations owned or managed by Southern States and some three dozen other facilities such as feed mills, distribution centers, fertilizer facilities, etc. In total, these operations provide more than 3,200 full-time jobs and more than 600 seasonal or part-time jobs, with most located in rural communities. Being farmer owned, Southern States is focused on providing its farmer members with a dependable supply of farm inputs and other services on a cost-effective basis that will help contribute to their economic well being and success.

One of the other ways we are trying to help farmers is through the Southern States Cooperative Foundation. We established this in 1999 specifically to help farmers explore ways to develop value-added agricultural products. We have worked with more than a dozen producer groups who have developed new cooperatives in a variety of value-added endeavors. With each project, we help them develop strategic and business plans, conduct board and management training, and market development.

Mr. Chairman, we've been able to do a great deal through USDA's Rural Cooperative Development Grant Program, and we certainly support continued funding for it. In our case, it has allowed us to bring sound business development to producer groups that might not otherwise have the resources for such development.

Since 1991, I have had the honor of serving on the Southern States board of directors. I recently was elected by producer-delegates in the geographic district I represent to a fifth, three-year term on the board and have served as chairman of the board for the past three years.

While I have always been a firm believer in and supporter of farmer cooperatives, those attitudes have been strengthened in the past 12-18 months. That period has been one of considerable challenge for Southern States and many other cooperatives. Due to a combination of drought and other adverse weather conditions, a difficult farm economy and some diversification and growth steps that did not generate the returns Southern States had expected, our cooperative has been confronted with major financial challenges. I'm happy to report that steps the cooperative has taken during the past year have gotten us back on what I believe is the right track. We're not out of the woods yet, but we already are seeing improvements and I'm confident we are headed in the right direction. The point in all this is to note the reactions of our members during this difficult period. At Southern States meetings and elsewhere, I and my fellow directors on the board have been approached by Southern States member-producers. More times than I can count, these member-producers have told us how much they need Southern States and how much the well being of their farming operations depends on Southern States. Hearing these and similar comments repeated scores of times has been a welcome, but at the same time, sobering reminder of what Southern States means to the farmers it serves.

If my history and math are correct, it has been 81 years since the Capper-Volstead Act was enacted by the U.S. Congress to better pave the way for farmers to work together in cooperatives in meeting their farm supply, service and marketing needs. Much has changed during those eight decades. But as the comments from my Southern States producer-colleagues attest, farmers today still need and rely on their cooperatives as much as they ever did. All of which explains why we were pleased to see the formation of the Congressional Farmer Cooperative Caucus. We appreciate the leadership of Congressmen Graves and Pomeroy in serving as House co-chairs of this group.

I mentioned a moment ago the challenges Southern States has been facing recently. One of the reasons the picture has improved markedly is because our cooperative has moved aggressively to reduce debt, cut overhead expenses and focus on our core market of production agriculture. Quite frankly another reason has been an improving farm economy. And there's no doubt in my mind that the 2002 Farm Bill, along with disaster assistance and other steps Congress has taken to bolster farm income, have played a key role in the improvement we've seen thus far and in what is projected. The producers I know prefer to generate their income through the marketplace, as opposed to "farming the mailbox." Nonetheless, we appreciate Congress's recognition that actions were needed to address issues faced by our nation's most basic and important industry, agriculture.

As noted earlier, today's marketplace and the challenges it poses to farmers are different in many respects from what prevailed when Capper-Volstead went into effect, but they are no less daunting. For example, the consolidation of input providers and food processing companies has been dramatic in recent years and we see no halt in that trend. Similarly, a farmer's market no longer is limited to a nearby town or a plant in an adjoining county or state. Not only does today's U.S. farmer produce for a national marketplace, he also must compete with producers around the globe. I personally do not know of any farmer who is large enough to tackle any of these and other similar challenges on his own. Whether it involves securing the needed inputs and related services as efficiently as possible to gain the cost-effective production required to compete and generate an adequate return, whether it involves the marketing and/or processing of what he grows to gain a greater share of the food and fiber dollar, today's farmer needs a reliable place to turn.

When it comes to inputs and related services, the comments I mentioned earlier have made it clear to me that many producers in Virginia and other Eastern and Southeastern states rely on Southern States. I'm sure co-op members in other parts of the nation would say the same thing about their cooperatives, including those engaged in marketing and value-added processing activities.

So the issue, in my mind, is precisely what this hearing is all about—namely, the actions Congress can and should take to improve the ability of cooperatives to serve their producer-members. While there are many possible actions, I'll limit my recommendations to those applying to farm supply and service cooperatives because that's the area I'm most familiar with from my involvement with Southern States. I know my colleagues representing other types of cooperatives here today can and will address the needs that they see.

First, Southern States believes that existing programs and tools within the U.S. Department of Agriculture—programs and tools created to help farmers help themselves—can be strengthened as a way of meeting that goal. Among other things, we strongly support the establishment of a separate farmer cooperative agency within USDA, an agency with the resources needed to carry out existing programs, as well as new ones, to maintain and improve the ability of farmers to join together in cooperative self-help activities. From our perspective, having a separate farmer cooperative agency would provide for greater accountability and promote greater support. We recognize that a separate agency for cooperative research, education and technical assistance existed within USDA from the early 1950s to the mid-90s, when it became part of an expanded Rural Business-Cooperative Service. That loss of agency status, as well as specific budget authority, has posed problems in program continuity and in the ability to respond effectively to issues posed by the rapid changes in today's global marketplace.

Second, we urge Congress to approve legislation (HR 1671) as introduced by Congressmen Herger, Graves and Pomeroy, to clarify what's known as the Dividend Allocation Rule. Because of the Dividend Allocation Rule, cooperative dividends are subject to a triple tax, while regular corporate dividends are taxed only twice. Eliminating this unfair tax penalty—an issue that both houses of Congress have acted on favorably in the past—would be an important step in helping farmer cooperatives attract equity capital.

Third, to make sure that farmer cooperatives have continued access to a competitive source of credit, we support an updating of the Federal Farm Credit Act -- especially in view of changing state laws. The problem is that some of the newer business forms available to farmers interested in working together in the marketplace are very appealing. However, they do not now qualify as potential CoBank borrowers even though they clearly are cooperative in nature. Updating the law would allow farmers to continue to have choices when it comes to organizing and financing their cooperative businesses.

My fourth and final point probably could be a sub-point of my first comments about strengthening existing tools within USDA. However, it's an issue important enough to us that we wanted to make note of it separately. Our understanding is that new provisions of the Business and Industry (B&I) Guaranteed Loan Program in the 2002 Farm Bill could provide loan guarantees up to 90 percent on maximum loans to cooperatives of up to \$40 million. That and other new B&I loan program provisions represent a considerable improvement over what they replaced. However, I would note that in today's environment, the \$40 million cap doesn't meet the needs of many cooperatives, including Southern States. We're not advocating a re-opening of the Farm Bill to deal with this issue. However, from a realistic standpoint, having federal guarantees behind loans of up to \$100 million as originally proposed by this Committee in the 2002 Farm Bill would come much closer to meeting the needs of today's larger, capital-intensive cooperatives. One of the challenges cooperatives historically have faced, and continue to face today, is generating capital required for meeting operating needs and capital improvements. Many new generation cooperatives have addressed the latter by requiring substantial up-front investments from the producers they serve. Other cooperatives find that approach difficult to implement due to the nature of their business. Regardless of the circumstances a particular cooperative may or may not face, boosting the guarantee to the \$100 million range would be extremely helpful.

Exactly 50 years ago, Southern States observed the 30<sup>th</sup> anniversary of its founding by producing a movie entitled "We." The main point of that movie was that cooperatives are not a set of buildings and facilities that represent the "them" in a "we and them" scenario. Rather, cooperatives are farmers themselves working together to accomplish what none of them could do by themselves. In short, a more appropriate way to view our organizations is with an equal sign between the words "we," "farmers," and "cooperatives." That was true in 1923 when Southern States was founded as Virginia Seed Service to provide farmers with a reliable supply of quality seed. It was true 50 years ago when "We" was produced, and it remains true today.

Mr. Chairman, should members of this committee or its staff have an interest in seeing the operations of a farm supply cooperative, I would note that Southern States has a number of locations with an hour's drive or so of the Capitol. We would be happy to show any of them to you.

Thank you again for the opportunity to share these thoughts with you.